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SIPDIS

TREASURY FOR OFFICE OF EASTERN EUROPE

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TAGS: ECON ETRD PREL CY

SUBJECT: TURKISH CYPRIOTS TO REMAIN UNABLE TO EXPORT FOR  
YEARS EVEN WITH REUNIFICATION

Classified By: Ambassador F Urbancic for reasons 1.5 B AND D

¶1. (C) Even in the event of a solution, Turkish Cypriots may not be able to trade directly with the EU for "four to five years at least", according to a European Commission official who spoke with Embassy officers on September 24. Steven Darling (please protect), who works for DG Enlargement on helping Turkish Cypriots (T/C) bring their financial laws and regulations in line with the EU acquis, blamed lagging efforts by T/Cs to upgrade their customs and sanitary and phytosanitary procedures as the main obstacle. When we asked if this was the worst case scenario, Darling responded that this was the most likely scenario.

¶2. (C) Darling explained that north Cyprus is currently installing a customs automation and information system from Turkey that is "totally incompatible with EU requirements." The "Undersecretary of Finance" previously told us that the original T/C plan for an EU-compatible system was scuttled by the RoC's refusal to allow the EU to supply the necessary equipment because "it would imply recognition for the 'illegal' ports." After a year's wait, the T/Cs decided to purchase Turkish equipment. Moreover, Darling claims that it would take at least "two years" in the best case scenario to resupply and retrain T/C customs after reunification. Until this was done, he pointed out, T/C producers could not export to the EU internal market from ports in the north given customs incompatibility.

¶3. (C) A food products sanitary and phytosanitary system that falls short of EU standards also hobbles north Cyprus. Despite an EU aid program in place for over a year directed at this sector, T/C dairy producers have made little progress in upgrading the handling and storage of their products given the complexity and expense of the task. Darling believes it would take four to five years for T/C products to meet EU standards.

¶4. (C) Darling partially blamed the present solution-skeptical National Unity Party (UBP) "government", which came to power in April 19 elections, for lagging T/C harmonization efforts. He said many UBP officials either do not believe in the possibility of a solution or are actively against one. Consequently, they take at most a pro forma interest in reform efforts.

¶5. (C) Comment: The fact that Cyprus' reunification will not translate into the immediate opening of Europe to T/C ports and goods will surely embolden anti-solution forces and make selling a "yes" vote that much harder should this information enter the public domain. Furthermore, upon reunification north Cyprus would become fully open to EU imports, putting the largely pro-solution T/C business community under even more pressure as it struggles to compete with Greek Cypriot (not to mention other EU member-state) goods in the new single market.

